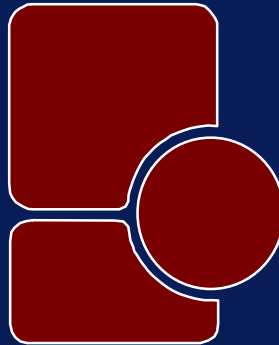


**Joint Legislative Audit and Review Commission  
of the Virginia General Assembly**



**Review of the Impact of State-Owned Ports  
on Local Governments**

**JLARC Staff Briefing  
October 12, 1999**

# Introduction

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## Staff for this study:

**R. Kirk Jonas, Deputy Director**

**Craig M. Burns, Project Leader**

**Gerald A. Craver**

# Presentation Outline

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## Overview

- ☐ Benefits Associated with the Virginia Port Authority's Terminal Facilities
- ☐ Reimbursement for Local Government Services Provided to the Terminal Facilities
- ☐ Host Local Government Fiscal and Structural Issues Related to the Virginia Port Authority Property

# Study Mandate

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- Item 16 N of the 1999 Appropriation Act directs JLARC to study:
  - The fiscal impact of State-owned ports on local governments where the ports are located
  - The adequacy of the State funding provided to these local governments to compensate for the loss of local taxes and other revenues
- This study focused on the facilities operated by the Virginia Port Authority (VPA)

# Research Activities

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## ■ Site visits

- JLARC staff visited the four VPA terminal facilities to view the facilities' operations and interview staff
- Host local governments to interview selected staff

## ■ Structured interviews

## ■ Document reviews

- Including the economic impact analysis conducted for the VPA by the Martin Associates

## ■ Analysis of secondary data

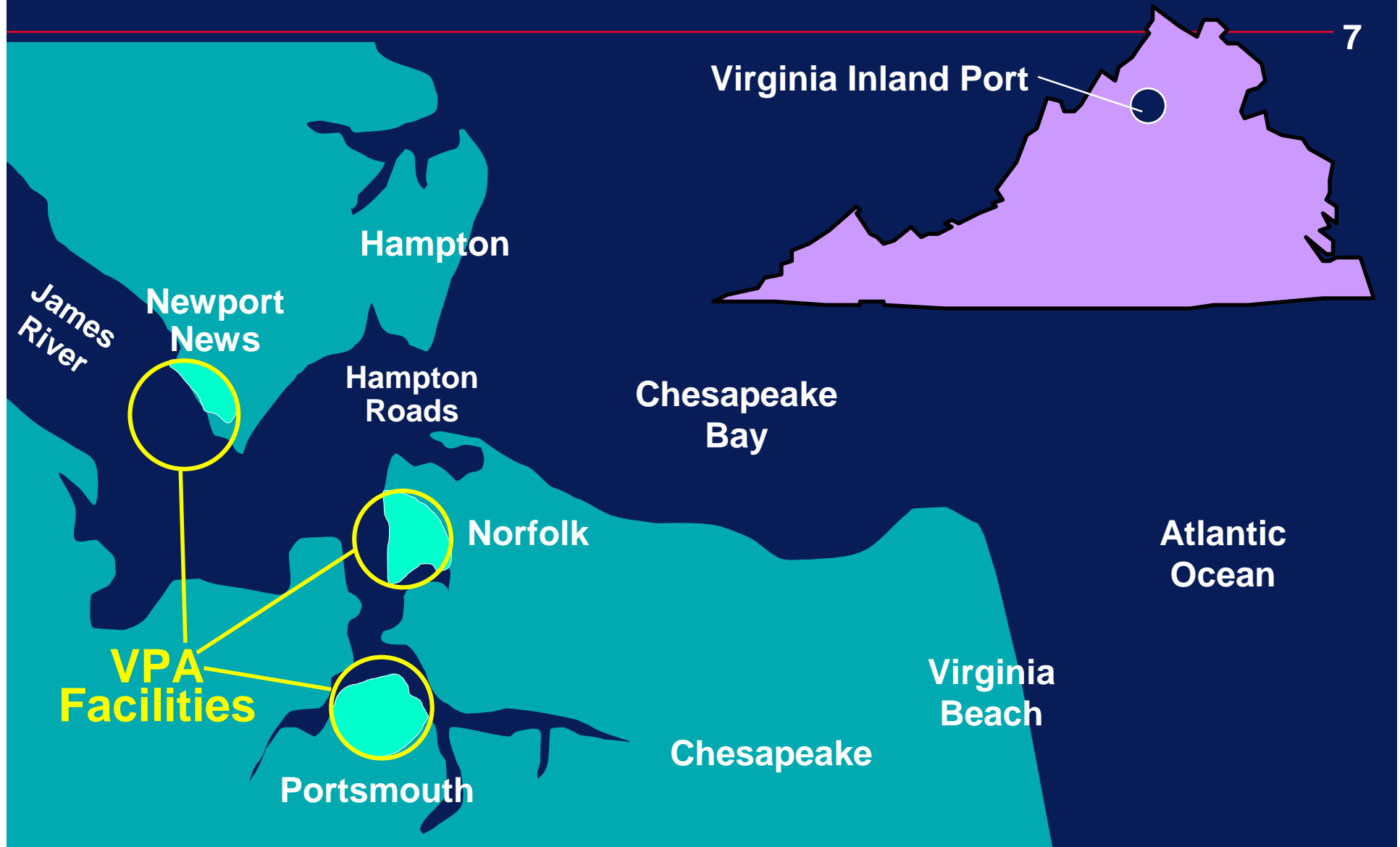
# Overview of the Virginia Port Authority

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- The VPA currently operates four terminal facilities in Virginia
  - Three marine terminals located in the cities of Newport News, Norfolk, and Portsmouth
  - One inland terminal located in Warren County
- In FY 1998, about 11 million tons of cargo were shipped through VPA's terminal facilities

# Location of VPA's Terminal Facilities





**Newport News Marine Terminal**  
Land area: 140.64 acres







**Norfolk International Terminals**  
Land area: 811 acres



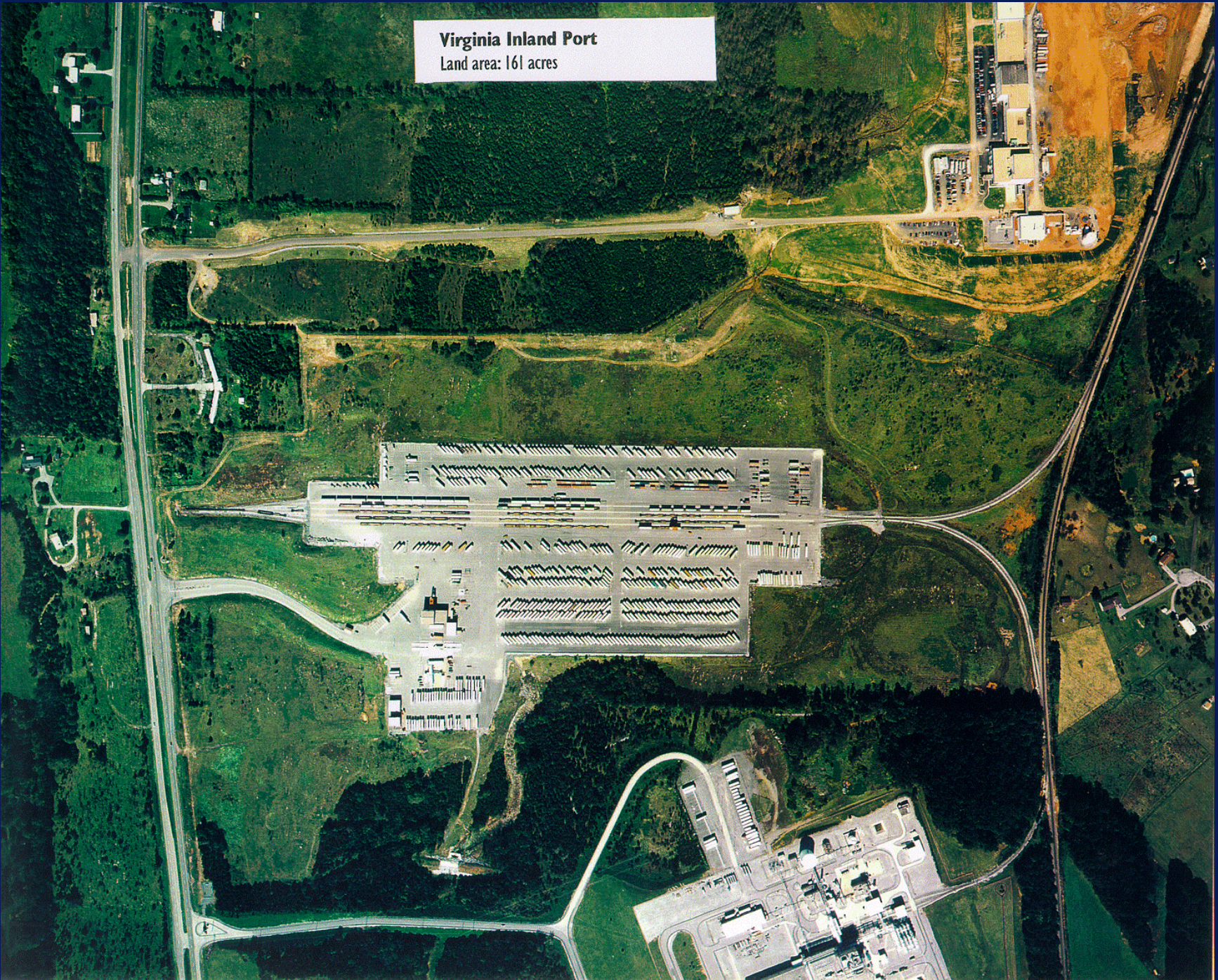


**Portsmouth Marine Terminal**

Land area: 219 acres



**Virginia Inland Port**  
Land area: 161 acres





# Overview of the Virginia Port Authority

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- Prior to VPA ownership, the three marine terminals were independently owned and operated by the respective host local governments
  - VPA acquired ownership of these facilities in the early 1970's
  - The Virginia Inland Port opened in 1989
- Operational unification of the marine terminals was completed in 1983 enabling the VPA to essentially operate and market the terminals as one facility
- VPA established the Virginia International Terminals (VIT) in 1983 to administer the daily operations of the terminals



# Virginia Port Authority Funding

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- Funding for the VPA is from terminal revenues and the Commonwealth Port Fund
  - Appropriations from the State's general fund were eliminated in FY 1997
- Commonwealth Port Fund revenue is based on 4.2 percent of the Transportation Trust Fund revenues
  - Commonwealth Port Fund revenue is to be used for capital expenditures

# Summary of Staff Findings

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- **The State's commitment of financial resources to the VPA has enhanced the competitiveness of the terminals resulting in substantial employment, wage, and business development benefits**
- **Localities hosting VPA facilities receive employment, tax revenue, and business development benefits from the terminals' operations**
- **Substantial benefits from the VPA's operations extend beyond the host localities**

# Summary of Staff Findings (continued)

15

- In addition to the fire protection services currently reimbursed to host cities, other services provided by host cities that benefit the VPA could be recognized for reimbursement
- Host localities forgo a substantial amount of local tax revenue due to the tax-exempt status of the VPA's terminal facilities
- Additional revenue based on the VPA's business activity could be provided to the host localities

# Presentation Outline

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- ☐ Overview
- ☒ **Benefits Associated with the Virginia Port Authority's Terminal Facilities**
- ☐ Reimbursement for Local Government Services Provided to the Terminal Facilities
- ☐ Host Local Government Fiscal and Structural Issues Related to the Virginia Port Authority Property



# VPA's Terminal Facilities Generate Substantial Statewide Benefits

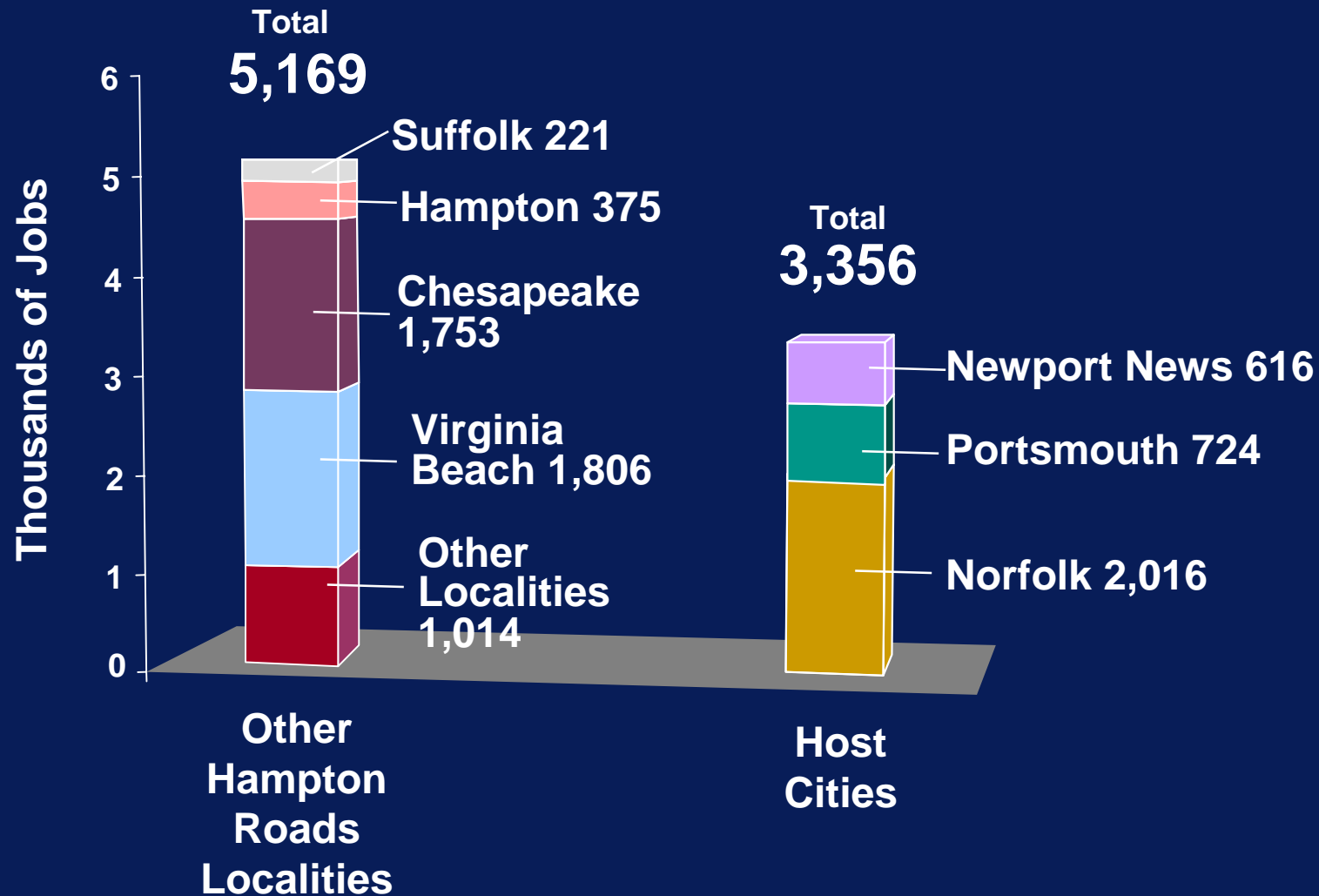
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- The State has ensured that the VPA has had access to funds to enhance its competitiveness with other ports
  - The State has invested more than \$480 million in the VPA terminals since they were acquired in the early 1970s
- An economic impact analysis conducted for the VPA in 1999 concluded that substantial benefits from the terminals have accrued
  - More than 160,000 jobs in 1998
  - \$583 million in wages in 1998
  - \$61 million in State and local taxes in 1998

# More VPA Employment Benefits Accrue to Non-Host Localities

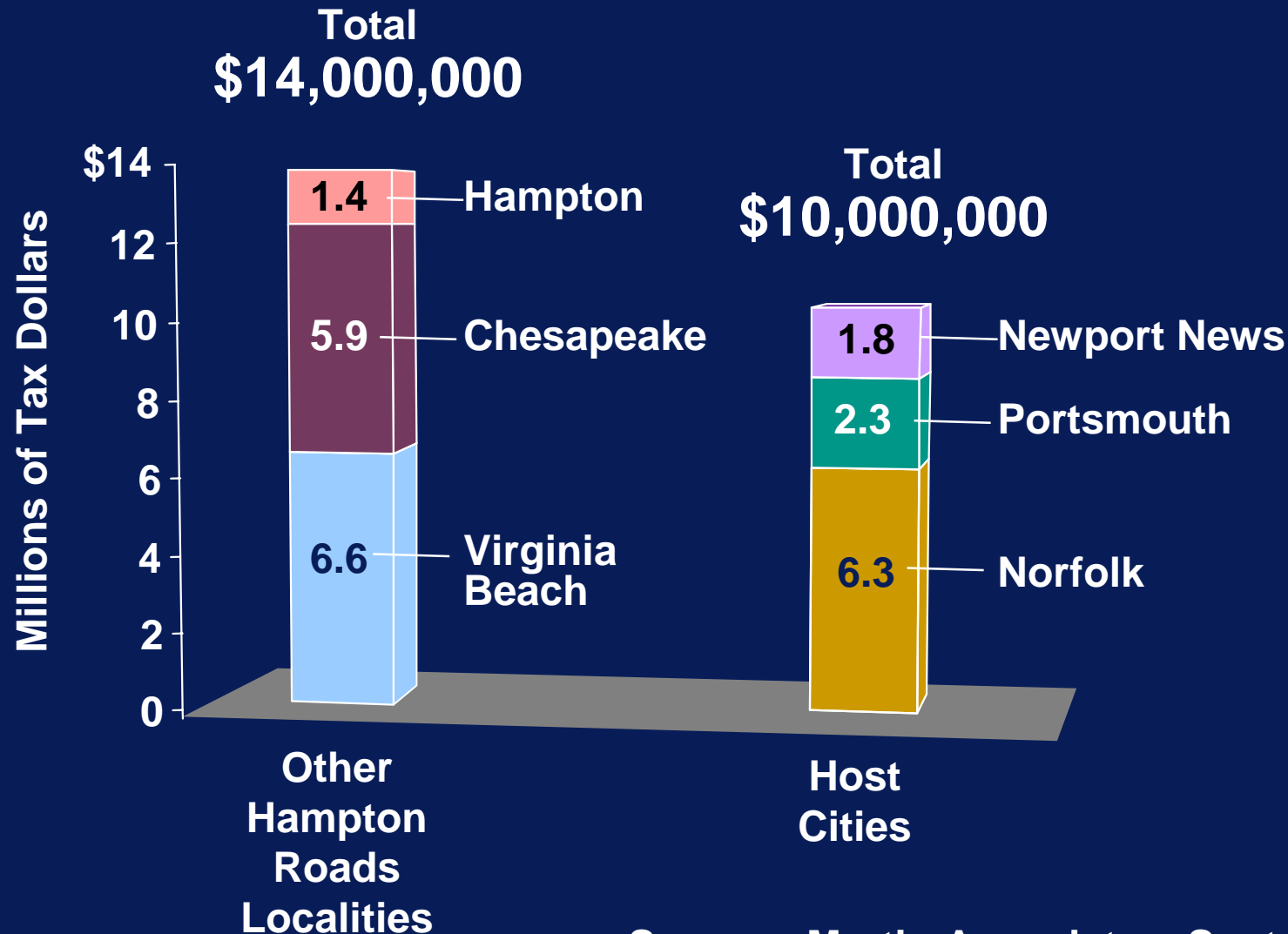
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Source: Martin Associates, September 1999.

# More VPA Tax Revenue Benefits Accrue to Non-Host Localities

19



Source: Martin Associates, September 1999.

# **VPA's Business Development Benefits Extend Beyond Host Localities**

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20

- **VPA host localities reported that the VPA facilities are an important component in their economic development programs**
- **Localities in proximity to VPA host cities also reported that the VPA facilities are an important element of their economic development programs**



# **VPA's Business Development Benefits Extend Beyond Host Localities** (continued)

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21

- **Host cities reported that the lack of developable property hindered their ability to fully use the business development potential of the VPA facilities**
  - The host cities have population densities higher than the average city
- **Only two of VPA's 20 largest Virginia-based customers are located in a VPA host locality**
  - However, a total of nine are located in the cities of Suffolk, Chesapeake, and Virginia Beach

# Location of VPA's 20 Largest Virginia-Based Customers

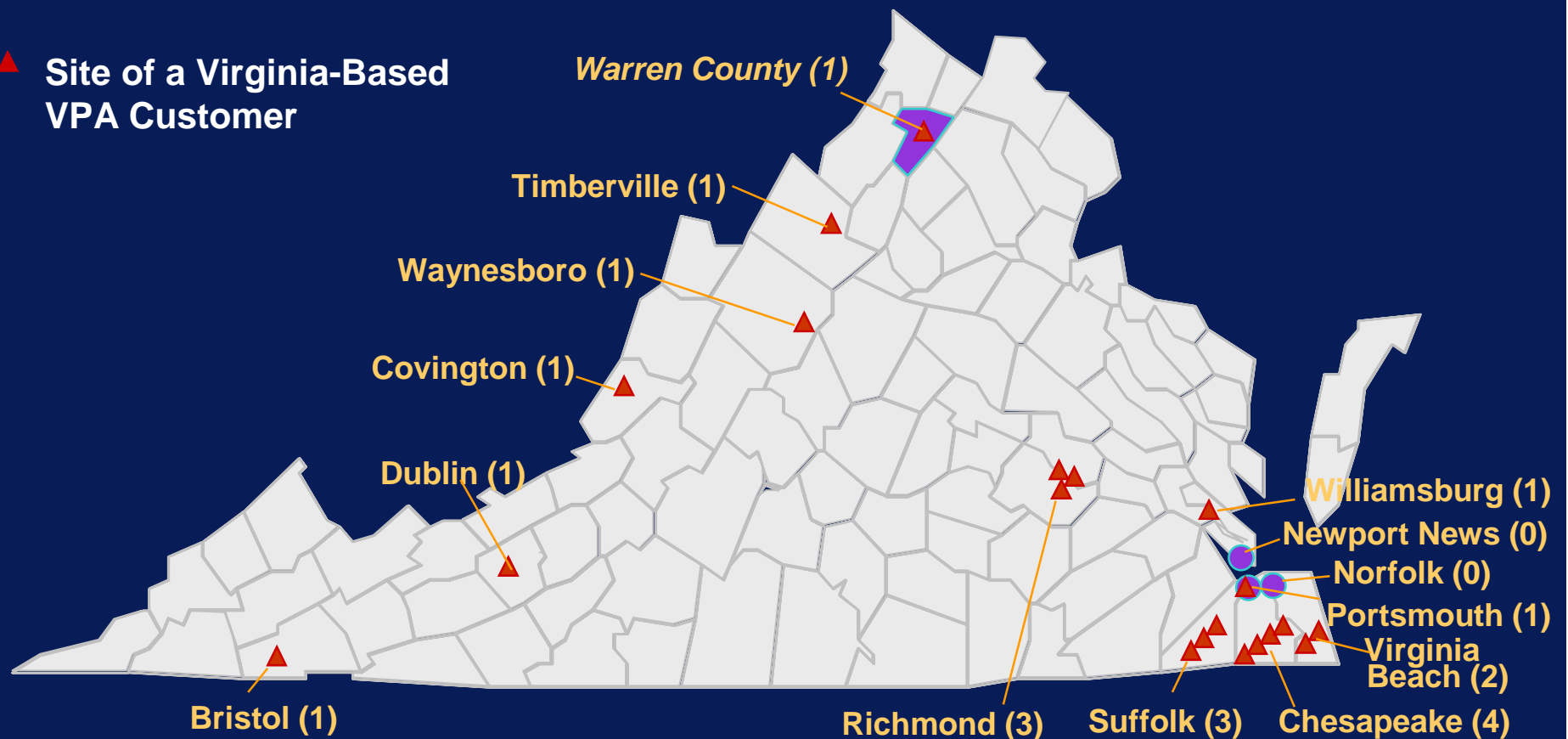
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Key:



*VPA Host Localities*

▲ Site of a Virginia-Based VPA Customer



# Presentation Outline

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- ☐ Overview
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# Reimbursement of Local Government Services Provided to State-Owned Property

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- The *Code of Virginia* authorizes localities to be reimbursed for fire and police protection and refuse collection services provided to State-owned, tax-exempt property
  - VPA provides police and refuse collection services and localities are only reimbursed for fire protection services
- The three host cities combined received about \$591,000 for fire protection services in FY 1999
  - Warren County did not submit a request for a service charge reimbursement to the VPA



# Systematic Review of Reimbursement Requests Is Needed

25

- The FY 1999 service charge requests from all VPA host cities were reviewed during this study
  - JLARC staff determined that the City of Portsmouth had calculated its reimbursement based on the Code requirement for non-State-owned, tax-exempt property
- The City of Portsmouth received \$17,000 less than it was entitled to receive in FY 1999
- The City of Portsmouth has since submitted revised reimbursement requests for FY 1998 and FY 1999 to VPA totaling more than \$28,500 for lost revenue

# Recommendation

26

- The Virginia Port Authority should comprehensively review all local government submissions for reimbursement of a service charge for compliance with section 58.1-3403 of the *Code of Virginia*. The Virginia Port Authority should formally report to the applicable local government any omissions or errors regarding the request for reimbursement.

# VPA-Related Truck Traffic Costs Could Be Recognized Through the Service Charge

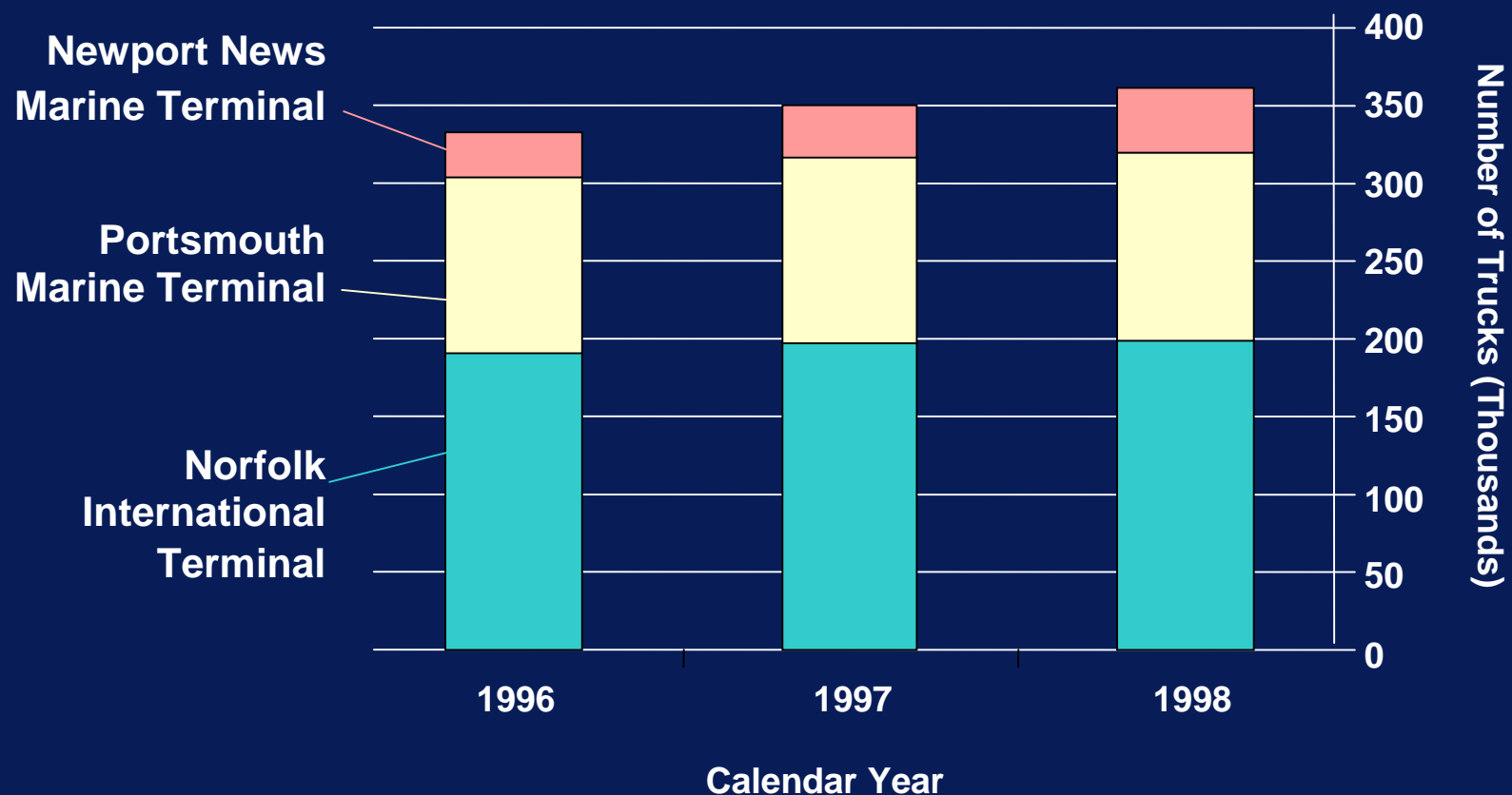
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27

- **Some local streets and roads in the host cities are utilized by trucks to haul VPA port cargo**
  - In 1998, about 350,000 trucks utilized the three VPA marine terminals
- **Cities are required to maintain their own streets and roads with financial assistance provided by the State**
  - In FY 1998, the cities of Norfolk and Newport News had per-lane mile expenditures for maintaining local roads higher than the statewide median

# Number of Trucks Using VPA's Marine Terminal Facilities, CY 1996 - CY 1997

28



# Some Law Enforcement Expenditures Could Be Reimbursed Through the Service Charge

29

- Host localities are not currently reimbursed for local police services because the VPA has its own police department
  - However, two localities reported that they received calls for local police services from VPA's property
- Both Norfolk and Portsmouth have crime rates that exceed the average for Virginia cities
- In 1996, 1997, and 1998, no cargo related thefts were reported at the VPA's facilities
  - Local law enforcement may contribute to these low measures of criminal activity at VPA's facilities

# **Value of All VPA Property Could Be Recognized for Local Fire Protection Reimbursement**

30

- At the present time, only the value of real property is included in the service charge reimbursement formula
- VPA's facilities contain a substantial amount of heavy equipment including cranes and other terminal equipment
  - According to the VPA, the net book value of this equipment exceeded \$42 million in June 1999
- In addition, there is usually a substantial amount of cargo being stored on-site at the terminals

# Terminal Equipment and Container Storage at Norfolk International Terminals

31





# Impact of Proposed Changes to Service Charge Formula

32

- The additional costs for recognizing each additional local government services through the service charge range from \$111,000 to \$928,000
  - Law enforcement: \$161,000 to \$644,000
  - Street and road maintenance: \$173,000
  - Fire protection: \$111,000

# Recommendations

33

- **The General Assembly may wish to consider amending section 58.1-3403 of the *Code of Virginia* to authorize local governments hosting Virginia Port Authority property to receive additional reimbursement for:**
  - **local street and road maintenance expenditures related to the impact of trucks using the Port Authority's terminals**
  - **local law enforcement services provided to VPA's terminal facilities**
  - **the value of all VPA property that receive local fire protection services**

# Presentation Outline

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- ☐ Overview
- ☐ Benefits Associated With the Virginia Port Authority's Terminal Facilities
- ☐ Reimbursement for Local Government Services Provided to the Terminal Facilities
- ☒ **Host Local Government Fiscal and Structural Issues Related to the Virginia Port Authority Property**

# VPA Host Cities Experience High Local Fiscal Stress

35

- The fiscal stress score is a composite measure of a local government's fiscal condition
  - The fiscal stress score is calculated using a locality's revenue capacity, revenue effort, and median adjusted gross income
- All host cities were classified as experiencing high fiscal stress in FY 1997
  - Norfolk was the most fiscally stressed city in Virginia
- In addition, all three cities have been classified as high fiscal stress localities since at least FY 1991

# VPA Host Localities' Fiscal Stress Index, Rank Score, and Classification, FY 1997

36

<u>Locality</u>	<u>Rank Score</u>	<u>Classification</u>
Norfolk City	1	High Fiscal Stress
Portsmouth City	4	High Fiscal Stress
Newport News City	11	High Fiscal Stress
Warren County	93	Below Average Fiscal Stress

# Host Cities Have High Property Tax Rates

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- Host cities also had real property tax rates that exceeded the rate for the average city in FY 1998
  - Warren County's real property tax rate was slightly below the average county's rate
- Between tax year 1994 and 1999, all of the VPA host cities increased their real property tax rates

# Federal Property Compounds the Impact of VPA Tax-Exempt Property

38

- All of the cities hosting VPA's terminal facilities are also host to large parcels of tax-exempt federal government property
  - The total value of the property owned by the federal government in the VPA host cities exceeds \$6.7 billion
- The tax-exempt State-owned property in the host cities contributes to the revenue challenges imposed by the tax-exempt federal property

# Federal and State Tax-Exempt Real Property in VPA Host Localities

39

<u>Locality</u>	<u>Percent of Federal Owned Tax-Exempt Property</u>	<u>Percent of State Owned Tax-Exempt Property</u>	<u>Total Federal/ State Owned Tax-Exempt Property</u>
Portsmouth City	46.5%	0.5%	47.0%
Norfolk City	25.1%	3.5%	28.6%
Newport News City	4.8%	1.7%	6.5%
Average City	7.8%	2.2%	10.0%
Warren County	2.3%	0.6%	2.9%
Average County	3.3%	0.9%	4.2%



# **Tax-Exempt Status of VPA's Terminals Affects Local Property Tax Revenue**

40

- **Localities hosting the VPA terminals are reimbursed for fire protection services provided to the facilities and for leases of any VPA tax-exempt property**
  - Revenue from the service charge was about \$591,000 in FY 1999
  - Revenue from the leasehold tax totaled about \$204,000 in FY 1999
- **The combined total VPA real property revenue loss by the host localities exceeded \$2.5 million**

# Other Local Revenue Sources Are Impacted by VPA's Tax-Exempt Status

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41

- A substantial amount of capital and industrial equipment is located on VPA's terminal facilities
  - This includes cranes, forktrucks, and automobiles and trucks
- Host localities are unable to levy approved taxes on this equipment
  - The City of Norfolk estimated that the revenue loss from this source is about \$600,000 annually

# VPA's Property Expansions Also Impact Host Local Governments

42

- Since VPA acquired the three marine terminals, business growth has required that the facilities expand
  - Property acquisitions totaling more than \$82 million have occurred for VPA's expansion
  - More than 70 percent of the property value was acquired in the City of Norfolk
- Because the host cities are landlocked, when VPA's terminals expand, the local real property tax base shrinks

# **Reimbursement Based on VPA Terminal Facility Activity Could Address Host Localities' Loss of Property**

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- At the present time, there is no mechanism available for reimbursing host localities for the loss of local revenue from VPA's expansions
- Additional reimbursement could be provided to the VPA host localities that could be linked to the activity at each terminal as well as the value of each facility
- This type of mechanism would address the service impact on local governments as well as begin to address the issue of local revenue loss

# Host Local Government Structural Issues Should Also be Addressed

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- The fiscal conditions experienced by the host cities are exacerbated by VPA's tax-exempt property
  - Other Virginia cities are required to meet growing demands for services with a stagnant revenue base
- Issues raised in this report may impact other localities with tax-exempt property
  - As a result, a comprehensive review of the issues associated with hosting tax-exempt property may be warranted

# Recommendation

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- **The General Assembly may wish to direct the Commission to Study Virginia's State and Local Tax Structure for the 21st Century to review the impact of hosting State-owned, tax-exempt property on local government revenue sources and service provision**

# Regional Focus of VPA's Benefits Could Be Addressed Through Revenue Sharing

46

- VPA's terminal activities generate benefits for many of the localities in the Hampton Roads region
  - The cities of Virginia Beach and Chesapeake receive more jobs and local tax revenue than do the host cities of Newport News and Portsmouth combined
- The *Code of Virginia* authorizes localities to enter into economic-growth sharing arrangements
  - The distribution of VPA-generated benefits may lend itself to some form of revenue sharing among the affected localities

# Recommendation

47

- With the assistance of the Hampton Roads Planning District Commission, the cities of Newport News, Norfolk, and Portsmouth should consider exploring the potential for adopting revenue sharing agreements consistent with sections 15.2-1300 through 15.2-1302 of the *Code of Virginia* with other localities in the Hampton Roads region that benefit from the operation of the Virginia Port Authority's terminal facilities.



# VPA's Operating Expenses and 1997 Bond Issue Are Funded Through Terminal Revenues

48

- In FY 1997, State general funds used to support VPA's operations were replaced by revenues from the terminals' operations
- In 1997, VPA issued \$98 million in bonds that are to be repaid entirely from terminal revenues
- Because terminal revenues were pledged as repayment, any changes to the terminals' revenue streams will be monitored by bond rating agencies

# Capital Intensive Nature of Port Industry Requires Substantial Revenues

49

- In order to enhance productivity and competitiveness, the VPA must invest in new capital equipment and its terminal facilities
  - VPA has determined that its facilities' capital requirements total almost \$420 million
- Commonwealth Port Fund revenue will be available, but terminal revenues will also be required to meet the facilities' future capital requirements

# Recommendation

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- To ensure that the Virginia Port Authority's revenues are used primarily to maintain its competitiveness, the General Assembly may wish to consider the use of general fund revenues to offset costs incurred by host localities.